

BancOhio Corporation



February 9, 1962

To the Stockholders:

The annual report of BancOhio Corporation and supplemental schedules are herewith presented. The consolidated net operating income of your Corporation and its twenty-two affiliated banks for the calendar year 1961 totaled \$6,588,042 after provisions for applicable taxes and reserves for loans and exclusive of minority shareholders' equities in the earnings of the banks. On the basis of the Corporation's shares now outstanding (after issuance of the 5% stock dividend) the net operating income amounted to \$5.98 per share. On the same share basis, the comparable income in 1960 was \$5.58. In 1961 the Corporation also had nonrecurring income totaling \$259,165 after taxes, due to receipt of special credits so that the total net income was \$6,847,207.

Cash dividends paid in 1961 amounted to \$2,097,792 compared to \$1,731,669 in 1960. Four regular quarterly dividends of 50c per share were paid for a total of \$2.00 per share. Cash dividends paid in 1960 totaled \$1.65 per share, adjusted to give effect to the 1960 stock dividend shares.

The 5% nontaxable stock dividend distributed on December 15, 1961 represents a capitalization of a part of the surplus from increase in equity in net assets of subsidiary banks since December 31, 1934. The remaining uncanceled equity amounts to \$13,205,961. In the past six years the stock dividend declarations totaled 37% and compounded, equal 43%, so that 100 shares of stock owned six years ago has now been augmented tax-free by 43 shares.

The capital and surplus of BancOhio Corporation at the close of 1961 amounted to \$54,996,981 compared to \$50,246,844 at the beginning of the year, a gain of \$4,750,137 or 9.5% — the Corporation's equity in the capital of the affiliated banks increased \$4,421,935 in 1961 — the Corporation's net gain in other assets totaled \$328,202. The book value per share was \$49.94 for the 1,101,340 shares outstanding on December 31, 1961. The book value per share for 1960 was \$45.62 adjusted to the current outstanding stock basis.

As in 1960, the increase in net operating earnings was attributable largely to a further increase in loan activity and to an increase in interest received on tax-exempt securities. The total gross income of the affiliated banks for 1961 was 3.0% greater than in 1960, whereas bank expenses — other than interest paid on deposits — increased 9.6% and deposit interest increased 13.3%. The final consolidated net operating income of BancOhio Corporation and the banks was 7.2% greater than that for 1960 and represented a 12.5% return on average invested capital.

In continuance of your administration's policy of daily investment of all surplus funds, the banks had the greatest volume of security transactions in their history. Sales and purchase commitments in 1961 totaled \$2,216,310,000, and permitted full investment of all available funds. By means of these activities a high level of liquidity in short term prime assets was maintained, involving minimum risk, adding significantly to earnings and assuring rapid adjustment to the changing requirements of borrowers and depositors.

The affiliated banks had a net gain from the sale of securities totaling \$1,271,234 after provision for taxes applicable to these profits. Of this amount \$12,503 in miscellaneous profits was included in income and \$1,258,731 was added to reserve accounts. As of December 31, 1961, the security reserves totaled \$2,991,852. In 1960, the net gain from security sales was \$693,433 after provision for taxes.

Despite the decline in the level of business activity and in industrial production and retail sales nationally, in the earlier part of 1961, your banks in the aggregate were able to maintain a satisfactory level of deposits which permitted a continued expansion of loans and investments. Particularly in the field of consumer loans and in the face of the most competitive conditions in the recent history of banking finance, the BancOhio affiliated banks established a new peak in their share in financing the legitimate credit requirements of the communities which they serve — in attestation, the month-end average of loans to business, industry and individuals in 1961 was \$291,862,000 compared to \$274,887,000 in 1960.

Reference has been made to continued expansion of the banks' loan accounts and to increased income therefrom. It should be noted that the banks increased their loan reserves a net amount of \$96,400 in 1961 and all ascertained losses had been written off previously. Measured by the practices of other commercial banks and by credit experience during past years, the present level of these accumulated reserves (\$6,850,885) we consider to be commensurate with the loan volume. In 1960 the loan reserves were increased \$840,450.

We are pleased to report that in recognition of present and future growth prospects, expanded facilities for bank customers were provided in 1961 by the establishment of a branch of the Ohio State Bank in Reynoldsburg, the fastest growing community in Franklin County — addition of the Western branch office of the First National Bank of Chillicothe — addition of the South branch office of the First National Bank of Delaware — addition of the Sciotoville branch office of the National Bank of Portsmouth and the opening of an auto bank facility for the First National Bank of Coshocton. Major improvements were completed for the Main office of the Ohio National Bank including new and expanded quarters for the Trust department and improved safe deposit and safekeeping facilities.

As to your Corporation's prospects for 1962, it must of course share in the trend of the national economy, perhaps enhanced as in the past, by such plus factors as special skills offered by a bank holding company organization may provide in producing results better than the average for financial institutions. The consensus of the leading economists and bankers is for a continuance through the major part of the year of the business recovery which characterized the last quarter of 1961. They anticipate a further expansion of business activity and some increase in rates of interest on loans and bank deposits, in keeping with greater requirements for credit by government entities, business and industry, and individuals. In such circumstances it is our opinion that your banks and other business should expect increased operating expense in the current year. Also in such circumstances it is probable that offsetting improvement in the rates of gross income may lag somewhat behind the rise in expenses.

Any assessment of business and financial 1962 prospects should include a reservation that the policies of our federal governmental administration, and increasingly, those of foreign governments, are imponderable factors in their impact on the course of our national economy. The proposed federal budget should have a sobering effect upon any optimistic hope for restraint in public spending or cessation of the long continued rise in business and living costs. The proposed budget anticipates a remarkable rise in tax receipts from forecasted increased income of industry and individuals, a reduction in the costs of meeting international emergencies, an increase in welfare and aid appropriations and stability in price-cost-wage levels. It is to be fervently hoped that a responsible Congress will make a careful appraisal of these budgetary presumptions in the process of acting on the recommended appropriations.

This 1961 report reflects a new peak of achievement for your Corporation and banks, and the results were the product of the competence and industry of 1778 bank officers and employees and 233 bank directors.

Derrol R. Johnson

President

BANCOHIO CORPORATION
(Parent company only)
STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1961

<i>Income:</i>	
Dividends from subsidiary banks	\$2,318,912
Interest	120,964
Other income	100
	<hr/> \$2,439,976
<i>Expenses:</i>	
Salaries, sundry taxes and other operation expenses	\$658,094
Less — service charges to subsidiary banks	562,725
	<hr/> 95,369
	<hr/> \$2,344,607
Federal income taxes	178,500
	<hr/> \$2,166,107
<i>Special credits:</i>	
Net assets (\$91,088) received on liquidation of wholly-owned real estate company (carried at no value) — less estimated applicable federal income taxes	\$ 79,596
Excess of estimated fair value over book value of securities contributed to Pension Trust (for account of BancOhio Corporation and its subsidiary banks) — less estimated (\$38,508) applicable federal income taxes	179,569
	<hr/> 259,165
Net income and special credits	<hr/> <u>\$2,425,272</u>

STATEMENT OF SURPLUS
YEAR ENDED DECEMBER 31, 1961

Balance at December 31, 1960	\$29,268,924
Increase in equity in net assets of subsidiary banks represented by:	
Undistributed net operating income — after provisions for possible future bad debts and loan losses, etc.	\$4,409,068
Net gains on security sales (after taxes)	\$1,264,742
Less — amount (applicable to U.S. Treasury securities) credited to reserve for market depreciation	1,251,875
	<hr/> \$ 12,867
	<hr/> \$4,421,935
Net income and special credits, per accompanying statement	2,425,272
	<hr/> 6,847,207
Adjustment for changes in minority interests in subsidiary banks	722
	<hr/> \$36,116,853
5% stock dividend of 52,444 shares declared in 1961 from "Surplus from increase in equity in net assets of subsidiary banks" — at \$102.86 a share, approximate market value at November 7, 1961*	\$5,394,390
Less — excess of market over par value*	4,345,510
	<hr/> \$1,048,880
Amount transferred to capital stock account equal to the \$20 par value of the shares issued	2,097,792
Cash dividends paid — \$2.00 a share	<hr/> 3,146,672
Balance at December 31, 1961 (see note to balance sheet)	<hr/> <u>\$32,970,181</u>

*In the surplus segregation shown in the note to the accompanying balance sheet \$5,394,390 was deducted from "Surplus from increase in equity in net assets of subsidiary banks" and \$4,345,510 was added to "Capital surplus."

THE BANCOHIO BANKS

RESOURCES, CAPITAL AND SURPLUS, UNDIVIDED PROFITS AND CONTINGENT RESERVES—COMBINED AT DECEMBER 31, 1961

	Total resources	Capital and surplus	Undivided profits and contingent reserves	Total capital contingent (net assets)
OHIO NATIONAL BANK OF	\$506,621,496	\$27,000,000	\$4,371,636	\$31,371,636
OHIO STATE BANK	22,747,829	1,000,000	342,272	1,342,272
FIRST NATIONAL BANK OF	8,619,568	500,000	122,740	622,740
FIRST NATIONAL BANK OF	20,170,116	1,300,000	220,888	1,520,888
SECOND NATIONAL BANK OF	4,962,377	375,000	99,557	474,557
FIRST NATIONAL BANK OF	19,159,524	1,200,000	229,643	1,429,643
FIRST NATIONAL BANK OF	14,659,223	950,000	131,511	1,081,511
KENTON SAVINGS BANK	6,495,595	400,000	127,963	527,963
HOCKING VALLEY NATIONAL BANK OF	13,641,245	800,000	140,300	940,300
FARMERS & MERCHANTS BANK OF	11,200,931	650,000	157,435	807,435
FIRST NATIONAL BANK OF	7,915,315	550,000	90,826	640,826
FIRST NATIONAL BANK OF	9,693,234	650,000	107,238	757,238
KNOX COUNTY SAVINGS BANK	10,367,937	850,000	171,843	1,021,843
FIRST NATIONAL BANK OF	22,880,665	1,500,000	390,534	1,890,534
PERRY COUNTY BANK	3,584,065	225,000	64,499	289,499
THE NATIONAL BANK OF	13,519,799	850,000	168,657	1,018,657
FIRST NATIONAL BANK OF	40,797,600	2,600,000	418,952	3,018,952
FIRST NATIONAL BANK OF	9,170,458	650,000	149,834	799,834
FIRST NATIONAL BANK OF	10,033,652	600,000	110,559	710,559
FIRST NATIONAL BANK OF	6,497,796	475,000	110,792	585,792
WORTHINGTON SAVINGS BANK	17,341,296	950,000	53,356	1,003,356
CITIZENS NATIONAL BANK IN	22,390,354	1,300,000	271,298	1,571,298
COMBINED TOTALS	\$802,470,075	\$45,375,000	\$8,052,333	\$53,427,333
Less—minority interest		803,582	234,991	1,038,573
BancOhio Corporation equity		\$44,571,418	\$7,817,342	\$52,388,760

THE BANCOHIO BANKS

SUMMARY OF COMBINED TOTAL NET ASSETS AT DECEMBER 31, 1961

Assets:

Cash and due from banks (including \$5,888,833 due from affiliated bank)		\$153,224,945
Securities — at amortized cost:		
U.S. Treasury securities, less \$2,991,852 reserves	\$201,452,396	
State and municipal bonds	89,153,603	
Other bonds and securities	30,728,891	
		321,334,890
Stock in Federal Reserve Bank		1,286,250
Loans, less \$6,850,885 reserves		319,093,093
Banking premises and equipment, less depreciation		7,530,897
		<u>\$802,470,075</u>

Liabilities:

Demand deposits (including \$3,103,107 deposits of affiliated banks and BancOhio Corporation)	\$496,534,703	
Time deposits	228,167,141	
		\$724,701,844
Federal Reserve Bank deferred credits		10,839,284
Interest, taxes, etc.		4,832,357
Unearned income		8,669,257
		<u>\$749,042,742</u>
Combined total net assets		<u>\$ 53,427,333</u>

SUMMARY OF CHANGES IN COMBINED TOTAL NET ASSETS DURING 1961

Combined total net assets at December 31, 1960		\$48,946,408
Net income for 1961:		
Net operating income — after provisions for possible future bad debts and loan losses	\$6,843,922	
Net gains on security sales (after taxes)	\$1,271,234	
Less — amount (applicable to U.S. Treasury securities) credited to reserve for market depreciation	1,258,731	
	<u>\$ 12,503</u>	
		6,856,425
Cash dividends paid (\$2,318,912 to BancOhio Corporation)		\$55,802,833
		2,375,500
Combined total net assets at December 31, 1961		<u>\$53,427,333</u>

BANCOHIO CORPORATION
(Parent company only)

(An Ohio corporation — Incorporated in 1929)

BALANCE SHEET — DECEMBER 31, 1961

ASSETS

Deposits in banks (\$86,931 in subsidiary bank)	\$ 121,583
U.S. Government and federal agency securities, at amortized cost (approximate market \$2,076,000)	2,082,354
Notes receivable (including \$445,584 from directors of subsidiary banks)	620,584
Investments in shares of subsidiary banks (acquired for BancOhio capital stock and cash) stated on basis of equity in net assets of the banks at December 31, 1961	52,388,760
	<u>\$55,213,281</u>

LIABILITIES

Federal income taxes, etc.	\$ 216,300
Capital stock — \$20.00 par value: Authorized — 1,300,000 shares Issued and outstanding — 1,101,340 shares	22,026,800
Surplus (see note below) per statement attached	32,970,181
	<u>\$55,213,281</u>

Note:

Accepting December 31, 1934 as a starting point and after deducting from "Surplus from increase in equity in net assets of subsidiary banks" \$20,397,232 for stock dividends declared from such surplus in 1956 through 1961 as permitted by law, the total surplus account would be segregated as follows:

Capital surplus (net)	\$15,992,995
Surplus from increase in equity in net assets of subsidiary banks — since December 31, 1934	13,205,961
Earned surplus — since December 31, 1934	3,771,225
	<u>\$32,970,181</u>

Price Waterhouse & Co.

Fifty West Broad Street
Columbus 15, Ohio
January 18, 1962

To the Board of Directors of
BancOhio Corporation

We have examined the December 31, 1961 financial statements of BancOhio Corporation (parent company only). Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, but we did not examine the financial statements of the subsidiary banks. However, for the subsidiary banks we reviewed the copies of the state and national bank examiners' reports presented to us covering examinations made by them during 1961, reports for seven of the banks had not been completed.

The investments in subsidiary banks are stated on the basis of the parent company's equity in the net assets of the banks as shown by their December 31, 1961 financial statements, which were certified by responsible bank officials to be copies of the statements filed with either the Comptroller of Currency or the Division of Banks of the State of Ohio; as indicated in the preceding paragraph we are not in a position to take responsibility for such statements.

Based on our examination described above, and with the explanation in the Note to the balance sheet regarding the application of stock dividends, it is our opinion that the accompanying balance sheet and statements of income and surplus of the parent company — BancOhio Corporation — present fairly its position at December 31, 1961 and the results of its operations for 1961, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.